

Annex B

ANNUAL REPORT

of the

DEFENSE SUPPLY AGENCY

July 1, 1962, to June 30, 1963

This report covers the first full fiscal year of Defense Supply Agency (DSA) operations. During the year, DSA made substantial progress in the assumption of responsibilities as integrated manager of assigned supplies and services for the Department of Defense. Items centrally managed increased five fold and inventory by more than 40 percent.

Most of the missions and organizations initially assigned DSA had by the end of the fiscal year been successfully absorbed. In addition, a wholesale distribution system for assigned supplies was instituted; new management responsibilities for chemical supplies, packaged petroleum, and industrial production equipment were undertaken; and a major study of selected classes of aeronautical materiel was launched. Realization of all potential benefits of consolidated management was enhanced by the continued introduction of management improvements and the conduct of systems studies.

This major forward step in integrated Defense supply and service management has been taken without impairment of support to the military Services, as attested by DSA's high standard of performance during the Cuban crisis. Moreover, it has resulted in numerous economies in the Defense logistical establishment. All of these accomplishments have been due in no small measure to the cooperation of the military departments and the Office of the Secretary of Defense in working out the many difficult adjustments involved.

Assumption of Item Management Responsibility

DSA centers generally have met phased schedules established last year for the assumption of item management responsibilities. The Defense Petroleum Supply Center assumed management of packaged petroleum stocks on October 1, 1962; the Defense Construction Supply Center became fully operational on November 1, 1962; and the Defense Automotive Supply Center on July 1, 1963. The Electronics Center capitalized its first increment on December 1, 1962, and by the end of the fiscal year was centrally managing 389,000 items. Under an accelerated schedule, it will become fully operational on April 1, 1964. Certain classes of electrical supplies included in the original electronics package are being shifted to the General and Industrial Centers, with the former assuming the predominant share in phased increments July 1-December 31, 1963. The Industrial Center, which became fully operational in its originally assigned classes on July 1, 1963, will assume a single add-on class (electric wire and cable) by September 1, 1963.

PLUS), this centralized matching system will be expanded to all items on October 1, 1963. Similarly, Project SHAKEDOWN, initiated as a test of Joint Service review of item identification data for cross-servicing in Federal Supply Class 2915 (Engine Fuel System Components, Aircraft), was extended to eight additional classes of aeronautical material. Technical personnel have been employed to search out all potential uses of parts of weapons systems being phased out, such as NIKE-AJAX. As a result, use of these parts has substantially increased. DSA is also undertaking to optimize interservicing of supplies and services at the retail level between installations of the Army, Navy, and Air Force.

The value of long supplies and excess utilized through the interservicing program in fiscal year 1963 totaled \$531 million, an increase of \$56 million over fiscal year 1962.

Increase utilization of materiel within Department of Defense or by other Government agencies is more economical than disposal as surplus where the return is at best likely to be only a few cents on the dollar. Increased utilization has resulted in a smaller amount of property, in less desirable condition, available for sale. Thus in fiscal year 1963 the acquisition value of materiel sold as surplus usable property amounted to \$892 million as compared to \$1,236.2 million in fiscal year 1962. Proceeds of \$59.4 million represented a return of 6.7 percent of acquisition value as compared to a 7 percent return the previous year.

Surplus disposal by DOD remains, nevertheless, a large-scale enterprise. A study of the entire program within the United States was conducted by DSA during the year at the direction of the Secretary of Defense. Some 33 recommendations emerged from the study, many of which are now being carried out with a view to making substantial improvements in marketing and handling to increase returns while cutting the costs of disposition.

In administering the Coordinated Procurement Program, DSA's main effort has been toward developing improved policies and procedures and preparing a list of existing coordinated procurement assignments. This will be followed by a review and up-dating of existing assignments in conjunction with the military Services and a study of additional areas for possible inclusion in the program.

In exercising DSA's traffic management functions during fiscal year 1963, the Defense Traffic Management Service (DTMS) quoted 967,000 freight rates and 28,400 passenger rates on behalf of various Defense elements, issued 146,000 freight route orders, and arranged 14,661 group movements. Some 23 million short tons of freight and 4.3 million passengers were moved under DTMS cognizance at a cost of \$463.5 million and \$126 million, respectively. DTMS estimated economies under the DOD Cost Reduction Program, accruing to the military departments, of \$16.4 million as a result of increased use of less than first class air accommodations, through-bill movement of household goods, and use of Great Lakes ports.

Moreover, DTMS' ability to respond to an emergency was more than amply demonstrated during the Cuban crisis, when arrangements for large-scale movements of men and materiel to the southeastern United States had to be made on short notice. Close teamwork between DTMS, the Interstate Commerce Commission, and rail and motor officials vastly expedited these movements and assured that the men and supplies would be in place to execute whatever action the President decided upon.

The end of fiscal year 1963 marked the first anniversary of operations under MILSTRIP, the new standard requisitioning and issue procedures now used by all elements of the Department of Defense. MILSTRIP, essentially a means of automating these processes, has proved to be an efficient and successful

peacetime system, and during the Cuban crisis it was especially effective. In keeping with its assigned responsibilities, DSA has maintained monitorship of MILSTRIP operations and procedures, including coordination of changes and improvements recommended by users.

MILSTRIP techniques have established a precedent with unlimited potential for application in other areas. A Military Standard Transportation and Movement Procedures (MILSTAMP) will be placed in effect worldwide October 1, 1963, and DSA has been assigned a role of monitor similar to that it performs for MILSTRIP. DSA is also furnishing the chairman for a task force charged with developing a similar system for standardization of inventory management data called MILSTRAP (Military Standard Reporting and Accounting Procedure).

Civil Defense Supplies

DSA continued support of the Office of Civil Defense Fallout Shelter Program through procurement, distribution, storage, and supply of specially designed shelter items of food, water containers, sanitation kits, and medical kits. Procurement during fiscal year 1963 approximated \$100 million representing supplies for an estimated 50 million shelter spaces. The materiel management aspects of this program, with stocks supplied to local Civil Defense customers through a network of 86 wholesale storage locations, are effected by the Defense General Supply Center, which also handles stock management for Civil Defense stockpile materiel.

Relations With GSA

DSA continues its close relationship with the General Services Administration in effecting cooperative arrangements for cataloging, disposal, standardization, procurement, and supply of common items. The area of most active interest during the past year has been that of supply management. The established policy of the Secretary of Defense in this area is that GSA should be used as a source of supply for the DOD whenever it is more economical and there is no loss in capability to support military requirements. During the fiscal year, total GSA sales to DOD components were valued at \$778 million, representing an increase over fiscal year 1962 of \$108 million.

Of major import during the latter part of the year were discussions participated in by the Bureau of the Budget, the Office of the Secretary of Defense, DSA, and GSA which resulted in agreement on assignment of all hand tool and paint items to GSA, except those retained for management by the DOD as weapons related. The ensuing transfer, scheduled for fiscal year 1964, will increase the number of items accepted by GSA by approximately 20,000. In accordance with a recommendation of the Joint Economic Committee of the Congress, a moratorium has been declared on any further substantial transfers pending the results of a study, to be conducted under the auspices of the Bureau of the Budget, aimed at the development of a "genuine Federal supply system."

Supply Effectiveness

While carrying out a reorganization of major proportions, DSA has successfully maintained a record of supply effectiveness at least equal to that under arrangements existing previous to its establishment, and in some cases has improved on it. Exact statistical comparison is difficult, both because systems employed by the several departments to measure supply effectiveness differed and because the JCS-approved priorities system under MILSTRIP significantly shortens the time period allowed for filling requisitions. DSA has established its own standard system to measure supply effectiveness in two ways. One